



Jerry E. Abramson
Mayor

26 Member
Metro Council

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Office of Internal Audit



Audit Report

Office of Internal Audit

Inspections, Permits and Licenses

Code Enforcement Division

April 2003



Inspections, Permits and
Licenses

Code Enforcement
Division

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LOUISVILLE, KENTUCKY

OFFICE OF INTERNAL AUDIT

JERRY E. ABRAMSON
MAYOR

RON WESTON
PRESIDENT, METRO COUNCIL

Transmittal Letter

April 30, 2003

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Louisville Metro Hall

Re: Attached Audit of the Inspections, Permits and Licenses Code Enforcement Division

Scope and Opinion

We have examined the operating records and procedures of the former Jefferson County Code Enforcement Division. The Metro Department of Inspections, Permits and Licenses (IPL) now administers this division. The primary focus of the audit was the fiscal administration of the activity.

As a part of our examination, we performed an evaluation of the internal control structure. Our examination was conducted in accordance with Generally Accepted Government Auditing Standards (1994 Revision), issued by the Comptroller General of the United States; with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors; and Generally Accepted Auditing Standards to the extent we considered necessary to evaluate the system.

The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel

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factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

The operating procedures associated with capital project management were reviewed through interviews with key personnel. The operational and fiscal administration of activity was reviewed. The following specific topics were included:

- Code Enforcement Administration
- Code Enforcement Processing

The scope and methodology of the areas reviewed will be addressed in the Observations and Recommendations section of this report. Our examination would not reveal all weaknesses because it was based on selective review of data.

The internal control rating for each area reviewed is on page 4. These ratings quantify our opinion regarding the internal controls used in managing the activity and identify areas requiring corrective action.

It is our opinion that the overall internal control structure for code enforcement fiscal administration is weak. There were some specific problems that indicate the internal control structure could be more effective. Examples of the problems include the following.

- The Code Enforcement Division charges do not adhere to authorized fee levels. The current fees do not comply with established ordinance and result in lost revenue.
- Monitoring and reconciliation of revenue activity is inadequate. This lack of oversight does not adequately protect the revenue and weakens the reliability of the financial statements.
- Funds are not properly secured and there is not adequate segregation of duties. This weakens the oversight necessary to ensure assets are protected.
- Functional operating policies and procedures are not provided for staff. This may lead to inconsistencies in administration and management of activities.

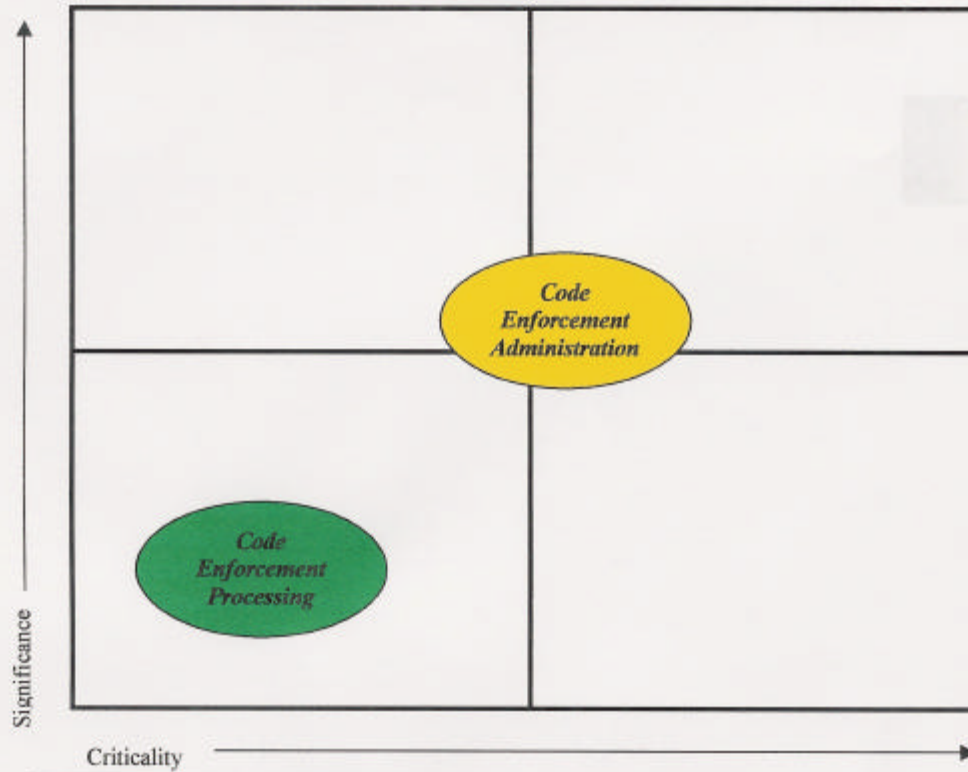
The implementation of the recommendations in this report will help improve the internal control structure and effectiveness for the Code Enforcement Division.



Michael S. Norman, CIA
Chief Audit Executive

cc: Louisville Metro Council Audit Committee
Louisville Metro Council Members
Deputy Mayors
Secretary of the Cabinet for Public Works and Services
Director of Inspections, Permits and Licenses

Internal Control Rating



<i>Legend</i>			
<u>Criteria</u>	<u>Satisfactory</u>	<u>Weak</u>	<u>Inadequate</u>
<i>Issues</i>	Not likely to impact operations.	Impact on operations likely contained.	Impact on operations likely widespread or compounding.
<i>Controls</i>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<i>Policy Compliance</i>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<i>Image</i>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<i>Corrective Action</i>	May be necessary.	Prompt.	Immediate.

Introduction

The Jefferson County Code Enforcement Division ensures public safety through the enforcement of the state codes set forth by the Building Officials Council of America (BOCA), as well as local ordinances regulating commercial signs and billboards, heating, ventilation and air condition requirements, building wrecking, handicapped parking provisions and dilapidated housing removal.

The Code Enforcement Division issues and enforces permits and licenses in accordance with Jefferson County ordinance chapter 150, as authorized by Section 198 of the Kentucky Revised Statutes. The division enforces the applicable requirements by issuing building, electrical, mechanical and other code related permits. Inspections are performed to assure compliance with all codes. The division also monitors the certification and licensing for staff and contractors, through testing and continuing education.

The fiscal 2003 operating budget for the Code Enforcement Division is approximately \$1.9 million. Approximately 30,000 licenses and permits were issued during calendar year 2002, generating approximately \$1.9 million in general fund revenue.

This audit was requested by the Director of Inspections, Permits and Licenses.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit has not conducted any reviews of the (former) Jefferson County Code Enforcement Division.

III. Statement of Auditing Standards

Our audit was performed in accordance with Generally Accepted Government Auditing Standards (1994 edition) issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing (2001 edition) issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

We conducted a formal study of the internal control structure in order to obtain a sufficient understanding to support our final opinion.

V. *Statement of Irregularities, Illegal Acts, and Other Noncompliance*

Our examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing came to our attention during the examination that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. *Views of Responsible Officials*

An exit conference was held at the Office of Internal Audit Administrative Offices on April 16, 2003. Attending were William Schreck, Charles Diggs and Robert Kirchdorfer representing the Department of Inspections, Permits and Licenses; Mike Norman and Mark Doran representing Internal Audit. Final audit results were discussed.

The views of the Department of Inspections, Permits and Licenses officials are included as responses in the Observations and Recommendations section of the report.

Observations and Recommendations

Code Enforcement Administration

Scope

Key Code Enforcement Division personnel were interviewed in order to review the operational and fiscal administration of the Code Enforcement Division. This included the processing of revenue, records management, and monitoring associated with receipts. This was intended to focus on the adequacy, efficiency and effectiveness of Code Enforcement Division practices. The following concerns were noted.

Observations

There were some problems noted with the administration of code enforcement activity. As a result, the internal control structure is weakened and its effectiveness impaired. Examples of problems include the following.

- The Code Enforcement Division charges do not adhere to authorized fee levels. Jefferson County Fiscal Court passed an ordinance in 2000 that increased the license and permit fee structure. These increased fees were never implemented.
- There is not sufficient monitoring of the revenue activity. The deposits are not reconciled to the financial statements or with the records management system. Monitoring is an integral part of a sound control structure.
- Revenue received is not adequately secured. Daily receipts are verified and deposited with Treasury. This occurs prior to closing the office, so any payments made after the deposit are held overnight in an unsecured envelope.
- There is not adequate separation of duties for revenue processing. A single individual receives payments and has electronic access to closeout the system. While the amounts charged are based on input by other staff members, the cashier should not have access to directly monitor the balance of revenue receipts. The Code Enforcement Division only accepts checks, which decreases the risks associated with payments. However, strong cash control requires adequate separation of duties.
- There are Standard Operating Procedures that address the overall duties and responsibilities of the Code Enforcement Division, but there is not any type of documented records management system user manual or detailed desk procedures for staff performing assigned tasks. This may lead to inconsistencies in administration and management of activities.
- A couple of situations exist regarding potential revenue enhancement. The following opportunities were noted.
 - The Code Enforcement Division receives building inspection fees in accordance with agreements with two Cities located within Jefferson County (Saint Matthews and Lyndon). The Code Enforcement Division receives the first \$100 for building inspections in these jurisdictions, with any amount in excess of \$100 being divided equally. The terms of the current agreements have been in effect since 1975 and 1983.

- Formerly, the Code Enforcement Division had the capability to print out a renewal notice when a Contractor's license was near expiration. A letter was printed approximately two months prior to expiration to notify the contractors to renew. Currently, there is no formal notification to the contractor when a license is nearing expiration.

Recommendations

Appropriate personnel should take the necessary corrective actions to address the concerns noted. Specific recommendations include the following:

- All fees charged should comply with applicable regulations. This will help ensure that appropriate revenue amounts are collected.
- A formal reconciliation process should be implemented. It is strongly recommended that the detailed monthly financial reports be compared to the applicable internal records (e.g., IPL system and revenue deposit reports). Source documents should be referenced when necessary to rectify any reconciling items. This helps ensure the transactions were processed as intended and posted to the proper financial centers. This also helps strengthen the reliability of the financial statements.
- Revenue deposits should be appropriately secured. Checks should be maintained in a locked location when not attended by the responsible cashier.
- Controls should be implemented to ensure adequate segregation of duties. The ability to generate revenue activity reports should be limited to a staff member other than the cashier. This would ensure that activities such as record keeping and the custodial responsibility of funds are performed by separate individuals. Implementation of these types of controls will allow for better security and safeguarding of assets.
- Written policies and procedures for the issuance of permits/licenses should be developed and distributed to all applicable personnel.
- Written policies and procedures for the code enforcement activity processing should be developed and updated periodically. These should correspond with and supplement applicable State statute, local ordinance and general Standard Operating Procedures. This documentation should be distributed to all applicable personnel. This manual should include sufficient detail for each job duty performed, copies of forms used and policies followed in the process. In addition, training of key personnel will help ensure consistent adherence to the requirements.
- Management should review the current agreements with small Cities. This will ensure that agreements are updated to reflect the current government structure and that all requirements are adhered to. In addition, there may be an opportunity to increase revenue through adjustment of the contractual rates.
- The feasibility and benefit of reinstating license renewal notices should be considered. This may provide a service to assist contractors to maintain licenses timely, as well as, help Metro government to collect the related fees.

Department of Inspections, Permits and License Response

Many of the audit observations were similar to those we discovered upon assuming responsibilities for this operation as a result of merger. Immediately upon discovering these weaknesses, we began to remove them through various means. The following is a summary of our actions to date in eliminating the weaknesses discovered by our teams:

- We have notified all known contractors, developers, architects and engineers that the fees approved by the Jefferson County Fiscal Court in the year 2000 will go into effect May 1, 2003. In addition, we have also notified these individuals that plumbing fees approved by the State will also become effective May 1, 2003. All forms and processes have been changed to allow for the implementation of this change.
- The entire Permitting and Licensing Program has been merged within the operations of the former City Licensing and Permitting Programs. With this merger, all fees collected will be processed through the cashier and depositing systems previously reviewed by the Office of Internal Audit.
- All revenues received are adequately secured in the manner previously reviewed by the Office of Internal Audit.
- Proper separation of duties for revenue processing has been established in accordance to these processes previously reviewed by the Office of Internal Audit.
- Legal Counsel for the Mayor and Jefferson County Attorney's Office have been asked to review all agreements with Second through Sixth Class Cities to insure consistency and legality.
- Renewal notices will be sent to affected contractors prior to their expiration to insure proper and timely renewal of their licenses.
- All forms, processes, and laws are being reviewed as a result of merger and the implementation of the "MIDAS" systems. All changes, processes and laws will be properly documented and distributed to appropriate staff.

Code Enforcement Processing

Scope

Key Code Enforcement Division personnel were interviewed in order to review the operational and fiscal administration of the Code Enforcement Division. This included the processing of revenue, records management, and monitoring associated with receipts.

Ten permit documents were judgmentally selected from the period of July 1, 2002 to December 31, 2002. The review consisted of examining the permit documents and required processing forms, records management system files, fees due, treasury receipts and financial system statements to determine the completeness, accuracy, timeliness and appropriateness of activity processed. The following concerns were noted.

Observations

There were some minor problems noted with the processing of code enforcement activity. However, the overall internal control structure is satisfactory. Examples of concerns include the following.

- One case was noted in which a business is currently operating at a location that has no record of a required fire suppression system inspection. This matter was verified with and will require further review by code enforcement staff.
- One case was noted in which an individual who was not described as having the ability to generate revenue activity reports signed as depositor on the Daily Balance Sheet form. This indicates that the cashier may have processed the daily closing of the records management system. As previously noted, this would not provide proper segregation of duties.

Recommendations

Appropriate personnel should take the necessary corrective actions to address the concerns noted. Specific recommendations include the following:

- Inspectors should perform all inspections as required. Routine supervisory review should include verification of inspections and assess the quality of the related documentation.
- Care should be taken to ensure that all permit and inspection activity is entered into the records management system. This will help ensure the completeness and reliability of the records.
- As previously noted, controls should be implemented to ensure adequate segregation of duties. The ability to generate revenue activity reports should be limited to a staff member other than the cashier.

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Department of Inspections, Permits and License Response

As previously noted, the audit observations substantiated many of the weaknesses we had already discovered since assuming the responsibility for the management of this operation. We have responded to the majority of recommendations in the audit report. The following is a summary of our actions taken to improve code enforcement processing:

- Due to size of geographical areas, the number of requests for services and limited trained staff, all needed/required inspections have not been performed for the all the developments. In addition, communication between contractors and code enforcement personnel has not been as complete and timely as we would like for it to be. The main reason for these inadequacies is not enough staff to adequately and timely respond to all requests and required services. We are reviewing staff needs and qualifications of not only our agency, but those of others, to determine the possibility of meeting staffing needs through merger, better coordination, better communication and the use of technology. We have also been talking to the various trade and development groups to assist us in developing processes and systems to better serve our clients and to meet current regulations. Permit and inspection activities are now being entered by support staff, not code enforcement personnel. We believe this change will improve the performance of the code enforcement personnel as well as insure that all permits and inspections are properly entered in our management system. We have terminated the use of the former County management system except for historical data and activities relating to those. All permits and inspections for new permits will be entered into the former City management system until the new comprehensive "MIDAS" system is developed and implemented.
- We have created adequate segregation of duties to insure safe and proper processing of permits, inspections and the revenue associated with them. Appropriate management personnel are responsible to review for accurate performance activities and all performance reports relative to their areas of responsibilities.
- The project manager for the "MIDAS" system has been requested to contact and work closely with representatives of the Department of Finance and Internal Audit to insure that the forthcoming "MIDAS" systems meet all financial and audit standards and requirements.



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Suggestions for our report format: _____

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Thanks for taking the time to help us. Please return in one of the following methods.

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